

## Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 AGR-20 CIAE-00 COME-00 EB-11 INR-11

LAB-06 NSAE-00 RSC-01 SP-03 STR-08 TRSE-00 SWF-02

CIEP-03 FRB-03 OMB-01 DODE-00 PA-04 USIA-15 PRS-01

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FM AMCONSUL KARACHI

TO SECSTATE WASHDC 8263

INFO AMEMBASSY ISLAMABAD

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EIND, ETRA, PK

SUBJECT: TEXTILE INDUSTRY CRISIS WORSENS

REF: A. KARACHI 0703 B. ISLAMABAD 5580 C. HONG KONG 8259

SUMMARY: COTTON TEXTILE INDUSTRY CRISIS ORIGINALLY REPORTED ON IN REF A WHICH BEGAN IN LATE 1973 HAS BEEN WORSENING DUE TO STEEP FALL IN WORLD COTTON YARN PRICES CAUSED BY SLACKNESS IN DEMAND FROM TRADITIONAL FAR EASTERN BUYERS. TEXTILE INDUSTRY CLAIMS THAT GOP TEXTILE EXPORT DUTY INHIBITS PAK TEXTILES FROM EFFECTIVELY COMPETING IN INTERNATIONAL MARKET. INDUSTRY DEMANDING COMPLETE ABOLITION OF PRESENT 20 PERCENT EXPORT DUTY BUT GOP FINANCE MINISTER MUBASHIR HASAN WHO HAS BEEN ON VISIT TO KARACHI HAS NOT AGREED AND HAS PROPOSED A PROFIT-LOSS SHARING SCHEME, DETAILS OF WHICH ARE STILL BEING WORKED OUT. INDUSTRY HIGHLY CRITICAL OF NEW SCHEME, CONSIDERS IT PARTIAL "NATIONALIZATION" OF TEXTILE EXPORT TRADE, AND HAS APPEALED TO PRIME MINISTER BHUTTO TO INTERVENE. END SUMMARY.

1. PAKISTAN'S TEXTILE CRISIS (SEE REF A) HAS GROWN WORSE IN

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RECENT MONTHS DESPITE TWO REDUCTIONS OF EXPORT DUTY AND IMPROVE-

MENT BY GOP OF EXPORT FINANCING CONDITIONS. COTTON YARN AND CLOTH INVENTORIES ARE PILING UP AND EXPORT SALES SAGGING DUE TO SLACKNESS IN INTERNATIONAL DEMAND, STEEP FALL IN WORLD PRICES, AND GROWING COMPETITION FROM OTHER COUNTRIES. WORST AFFECTED IS PAK COTTON YARN INDUSTRY.

2. SINCE BEGINNING OF DECLINE OF WORLD COTTON PRICES IN OCTOBER 1973 PAK TEXTILE INDUSTRY HAS BEEN PRESSING GOP FOR REDUCTION OF COTTON YARNS EXPORT DUTY RATE WHICH WAS RAISED TO MAXIMUM OF 40 PERCENT DURING FY 73 WORLD COTTON BOOM PERIOD. GOP TOOK NO ACTION FOR FIVE MONTHS AND THEN RELUCTANTLY REDUCED DUTY BY 5 PERCENT IN MARCH, 1974 (SEE REF A) AND AT TIME PRESENTATION NEW BUDGET BY 15 PERCENT TO PRESENT RATE OF 20 PERCENT (SEE REF B).

3. DESPITE GOP POSITION THAT REDUCTIONS HAVE CREATED CONDITIONS FOR INCREASED EXPORTS, IN FACT THEY HAVE HAD LITTLE EFFECT BECAUSE OF CONTINUED DECLINE IN WORLD MARKET PRICES. INDUSTRY NOW FACED WITH ACCUMULATED STOCKS CONSERVATIVELY ESTIMATED AT 80 MILLION POUNDS OF YARN AND 100 MILLION YARDS OF CLOTH. ISSUE BROUGHT TO A HEAD BY CONTINUED GROWTH OF YEARS INVENTORIES AS MILL OWNERS CLAIM INABILITY SELL PRODUCT WITHOUT LOSS AT PRESENT EXPORT DUTY RATE. INDUSTRY NOW DEMANDS COMPLETE ABOLITION OF EXPORT DUTY ON YARN AND CLOTH AND CUTTING BACK ON FURTHER PRODUCTION BY REDUCTION OF ONE WORK SHIFT.

4. SECRETARY, ALL PAKISTAN TEXTILE MILLS ASSOCIATION (APTMA), CLAIMS THAT EVEN AFTER ABOLITION OF DUTY, INDUSTRY COULD ONLY EXPORT AT A BREAK-EVEN POINT. HE ALLEGES SOUTH KOREAN YARN QUOTED IN HONG KONG AT \$240 PER BALE OF 400 LBS. IN ORDER TO COMPETE PAKISTAN WOULD HAVE TO EXPORT AT A MAXIMUM OF \$200 PER BALE, ALLOWING \$40 FOR FREIGHT TO HONG KONG. AT \$200/BALE, LOCAL PRODUCERS WILL ALLEGEDLY SUFFER 20 PERCENT LOSS SINCE RISE IN LOCAL PRICE OF COTTON, INCREASE IN WAGES, GAS AND ELECTRICITY RATES HAVE PUSHED UP PRODUCTION COSTS. CONGEN HAS NOT VERIFIED APTMA CLAIMS.

5. GOP FINANCE MINISTER MUBASHIR HASAN REMAINS UNSYMPATHETIC WITH INDUSTRY DEMANDS. ON JULY 22 FINMIN MUBASHIR ANNOUNCED NEW PROFIT-AND-LOSS SHARING SCHEME AS REMEDY FOR PRESENT CRISIS. ALTHOUGH DETAILS STILL AWAITED, PRESS REPORTS SALIENT FEATURES ENTAIL LIMITED OFFICIAL USE

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REIMBURSEMENT OF EXPORT DUTY TO ALL THOSE YARN PRODUCERS WHO WOULD AGREE TO VOLUNTARY PLAN UNDER WHICH 75 PERCENT OF YARN EXPORT PROFITS WOULD GO TO GOP AND 25 PERCENT OF LOSS WOULD BE ABSORBED BY GOP IF SALE WERE BELOW THE "FAIR PRODUCTION COST." THOSE PRODUCERS NOT OPTING FOR SCHEME WOULD CONTINUE TO PAY EXPORT DUTY AT CURRENT RATE. NO MILLS WOULD BE ALLOWED TO CUT BACK OR CEASE PRODUCTION.

6. LOCAL INDUSTRY VEHEMENTLY OPPOSED TO NEW SCHEME, ALLEGING IT AMOUNTS TO PARTIAL NATIONALIZATION OF TEXTILE EXPORT TRADE AND WILL GIVE GOP FULL RIGHTS TO PROBE INTO COMPANY ACCOUNTS OF ALL TEXTILE MILLS TO DETERMINE "FAIR PRODUCTION COST." INDUSTRY HAS APPEALED TO PRIME MINISTER BHUTTO FOR INTERVENTION.

7. IN STATEMENT TO PRESS IN KARACHI JULY 24 REBUTTING APTMA ALLEGATIONS OF QUASI NATIONALIZATION MUBASHIR NOTED GOP HAD FULL POWER TO NATIONALIZE ANYTHING IT WANTED AND THEREFORE DID NOT HAVE TO RESORT TO INDIRECT MEASURES. HE REITERATED PREVIOUS ASSURANCES THAT NO FURTHER NATIONALIZATION WOULD TAKE PLACE UNTIL AFTER NEXT ELECTIONS.

8. COMMENT: ALTHOUGH MILLOWNERS HAVE NO DOUBT INDULGED IN MANY SHADY PRACTICES, INCLUDING UNDER INVOICING AND OVERSTATING OF PRODUCTION COSTS, MIN FINANCE MUBASHIR'S INCREASINGLY VEHEMENT STATEMENTS AGAINST "BLACK SHEEP" MILL OWNERS (WHO HE HAS NOW PUBLICLY CHARACTERIZED AS "THIEVES") IS FURTHER INDICATION OF HIS BASICALLY HOSTILE ATTITUDE TOWARD PRIVATE INDUSTRY WHICH HAS LONG BEEN RECOGNIZED BY KARACHI BUSINESS COMMUNITY. WITH SUMMARY DISMISSAL BY P.M. ON JULY 3, 1974 OF MIN. INDUSTRIES J.A. RAHIM, MUBASHIR'S PRINCIPAL SOCIALIST COLLEAGUE IN CENTRAL GOVERNMENT, BUSINESSMEN HERE SEE MUBASHIR'S PRESENT STANCE AS INCREASINGLY DEFENSIVE IN RESPECT TO POSITIONS HE HAS PREVIOUSLY TAKEN VIS-A-VIS COTTON TEXTILE INDUSTRY. SUCH A DEFENSIVE POSTURE COULD BE INDICATION OF HIS FEAR THAT HARD LINE APPROACH TO PROBLEMS OF PRIVATE SECTOR MAY IN FUTURE NOT RECEIVE SUPPORT FROM P.M. BHUTTO WHICH LATTER HAS GIVEN TO DATE.  
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## Message Attributes

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